

City of Walled Lake, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Walled Lake, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Walled Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walled Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules of the General Fund, Major Streets Fund, and Local Streets Fund, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Walled Lake, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walled Lake, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 29, 2008

City of Walled Lake, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Walled Lake's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The City began a process of right sizing through efficiencies and attrition. As a result total long-term obligations decreased from \$4,282,379 to \$3,760,508, a decrease of \$521,871.
- General Fund revenues remained consistent with the prior year and expenses increased by approximately \$223,000. The increase in expenses was primarily to personnel costs in the police department.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

Governmental Activities

	June 30, 2006	June 30, 2007	June 30, 2008	Changes from Prior Year	
				in Dollars	Percent
Assets					
Current assets	\$ 1,899	\$ 2,043	\$ 2,267	\$ 224	11
Noncurrent assets	10,987	10,676	10,377	(299)	(3)
Total assets	12,886	12,719	12,644	(75)	(1)
Liabilities					
Current liabilities	1,192	530	571	41	8
Long-term liabilities	3,778	3,922	3,464	(458)	(12)
Total liabilities	4,970	4,452	4,035	(417)	(9)
Net Assets					
Invested in capital assets - Net of related debt	7,580	7,644	7,789	145	2
Restricted	428	485	512	27	6
Unrestricted	(92)	138	308	170	123
Total net assets	<u>\$ 7,916</u>	<u>\$ 8,267</u>	<u>\$ 8,609</u>	<u>\$ 342</u>	4

Governmental activities' net assets increased by approximately \$342,000 in the current year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$170,000 for the governmental activities in the current year.

While forecasting for the close of the 2007-2008 fiscal year and formulation of the 2008-2009 budget, City administrative staff maintained a diligent watch over our year-end expenditures and prepared the new budget on a "bare bones budget" strategy, eliminating all but necessities. The City's revenue stream remained fairly consistent in the majority of our revenue lines with the exception of our licenses and permits. We have seen a significant decrease in our building department revenues as a result of the current sluggish real estate market. Staff members have continued to maximize interest earnings through the use of both long-term and short-term investment tools. To continue to maintain adequate funding levels City-wide, administration and staff will continue to utilize cost containment measures at every opportunity.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2

Governmental Activities

	Year Ended			Changes from	
	June 30, 2006	June 30, 2007	June 30, 2008	Prior Year in Dollars	Percent
Revenue					
Program revenue:					
Charges for services	\$ 910	\$ 770	\$ 820	\$ 50	6
Operating grants and contributions	810	465	828	363	78
General revenue:					
Property taxes	3,334	4,034	3,776	(258)	(6)
State-shared revenue	627	621	719	98	16
Unrestricted investment earnings	131	159	134	(25)	(16)
Miscellaneous	131	87	71	(16)	(18)
Transfers	58	73	72	(1)	(1)
Total revenue	6,001	6,209	6,420	211	3
Program Expenses					
General government	910	957	1,004	47	5
Public safety	3,188	3,335	3,473	138	4
Public works	1,610	1,392	1,449	57	4
Recreation and culture	41	65	69	4	6
Interest on long-term debt	94	109	83	(26)	(24)
Total program expenses	5,843	5,858	6,078	220	-
Change in Net Assets	\$ 158	\$ 351	\$ 342	\$ (9)	(3)

The above chart shows the revenues and expenditures of governmental activities over the past three years. It should be noted that the spike in property taxes in 2007 was the result of the Downtown Development Authority not capturing any taxes that year. That decision also coincided with the decision not to reimburse the City for its administrative costs, which resulted in lower operating grants and contributions for 2007. For the 2008 fiscal year, property taxes were again captured by the DDA, and it re-established the reimbursement to the City.

Taxable value for the City of Walled Lake increased this year as a result of the Consumer Price Index increase for the 2008 fiscal year for those properties outside the DDA boundaries (the taxable value growth for properties inside the DDA boundaries is captured by the DDA). State equalized values have fallen in some areas of the City, as well as the County, which can be attributed to falling housing market values caused by poor economic conditions in the State.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

The City continues to experience high costs in the area of providing health care to our employees. In addition, "postemployment benefits other than pensions" (OPEB) that the City provides to employees present funding challenges of their own. The Government Accounting Standards Board (GASB) has issued Statement 45, which will require governments to report the annual OPEB cost and our unfunded liabilities for past service costs. Statement 45 establishes standards for the accounting and financial reporting but does not require governments to fund their OPEB. How a municipality actually finances their OPEB is strictly a policy decision made by city officials. Based upon the GASB phase-in dates for OPEB reporting, the City will be required to disclose information related to OPEB in the June 30, 2009 financial statements.

Business-type Activities

The City of Walled Lake's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage services through a jointly owned treatment plant with the City of Novi operated by Oakland County. The 2008 summer season was relatively normal weather-wise and resulted in a stable rate of consumption from our water system.

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the two prior years (in thousands of dollars):

Business-type Activities

	June 30, 2006	June 30, 2007	June 30, 2008	Changes from Prior Year	
				in Dollars	Percent
Assets					
Current assets	\$ 1,957	\$ 2,111	\$ 2,511	\$ 400	19
Noncurrent assets	<u>7,144</u>	<u>6,827</u>	<u>6,517</u>	<u>(310)</u>	(5)
Total assets	9,101	8,938	9,028	90	1
Liabilities					
Current liabilities	278	222	347	125	56
Long-term liabilities	<u>65</u>	<u>78</u>	<u>69</u>	<u>(9)</u>	(12)
Total liabilities	<u>343</u>	<u>300</u>	<u>416</u>	<u>116</u>	39
Net Assets					
Invested in capital assets - Net of related debt	7,142	6,827	6,517	(310)	(5)
Restricted	1	1	1	-	-
Unrestricted	<u>1,615</u>	<u>1,810</u>	<u>2,094</u>	<u>284</u>	16
Total net assets	<u>\$ 8,758</u>	<u>\$ 8,638</u>	<u>\$ 8,612</u>	<u>\$ (26)</u>	-

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

	Year Ended			Changes from	
	June 30, 2006	June 30, 2007	June 30, 2008	Prior Year in Dollars	Percent
Operating revenues - Water and sewer	\$ 1,884	\$ 2,022	\$ 2,667	\$ 645	32
Operating expenses - Water and sewer	2,445	2,483	2,711	228	9
Operating loss	(561)	(461)	(44)	417	(90)
Interest income	65	88	73	(15)	(17)
Interest expense	(15)	-	-	-	-
Capital charge/Tap-in fees	857	327	16	(311)	(95)
Transfers to other funds	(58)	(74)	(71)	3	(4)
Change in Net Assets	\$ 288	\$ (120)	\$ (26)	\$ 94	(78)

The improvement in the 2008 operating results, as compared to 2007 and 2006, were primarily due to a sewer rate increases in the current year. The City reviews water and sewer rates each year to ensure the fund is financially healthy and self-sufficient.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

The City of Walled Lake's Funds

Our analysis of the City of Walled Lake's major funds begins on page 14, following the government-wide financial statements. The City of Walled Lake's City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City of Walled Lake's major funds for 2008 include the General Fund, Major Streets Fund, and the Local Streets Fund. Below is a five-year history of the General Fund, which pays for most of the City of Walled Lake's governmental services.

	2004	2005	2006	2007	2008
Revenue					
Property taxes	\$ 2,910,835	\$ 3,122,476	\$ 3,337,251	\$ 3,963,784	\$ 3,699,395
Licenses and permits	493,539	578,372	391,817	270,042	230,956
Federal sources	37,535	47,209	83,365	89,671	32,089
State sources	648,317	632,618	626,808	620,774	609,553
Charges for services	217,896	198,229	198,380	196,127	197,866
Fines and forfeitures	65,917	77,004	89,853	70,925	66,334
Interest earnings and rent	38,889	62,631	135,778	162,398	157,084
DDA reimbursements	401,366	533,300	593,300	261,000	659,701
Other	155,474	148,336	205,886	154,415	150,619
Total revenue	4,969,768	5,400,175	5,662,438	5,789,136	5,803,597
Expenditures					
Current:					
General government	1,072,800	1,083,491	1,011,661	1,017,918	1,104,848
Public safety	2,852,104	3,066,141	3,061,600	3,194,420	3,368,673
Public works	687,061	793,875	803,035	826,969	799,478
Recreation and cultural	21,665	12,954	21,351	46,041	49,763
Debt service	241,366	283,300	272,300	279,469	265,260
Total expenditures	4,874,996	5,239,761	5,169,947	5,364,817	5,588,022
Excess of Revenue Over Expenditures	94,772	160,414	492,491	424,319	215,575
Other Financing Sources (Uses)					
Transfers in	-	-	-	37,500	-
Transfers out	(148,952)	(136,943)	(189,317)	(177,919)	(209,706)
Total other financing uses	(148,952)	(136,943)	(189,317)	(140,419)	(209,706)
Net Change in Fund Balances	(54,180)	23,471	303,174	283,900	5,869
Fund Balances - Beginning of year	487,647	433,467	456,938	760,112	1,044,012
Fund Balances - End of year	<u>\$ 433,467</u>	<u>\$ 456,938</u>	<u>\$ 760,112</u>	<u>\$ 1,044,012</u>	<u>\$ 1,049,881</u>
Fund Balance as a % of Expenditures	8.9%	8.7%	14.7%	19.5%	18.8%

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

As discussed above, the 2007 property taxes include an increase as a result of the decision for the DDA to forego any tax capture that year, as well as the related decision to forego the reimbursement to the City for administrative costs. For 2008, property taxes were again captured, and the DDA again reimbursed the City for its administrative costs.

The most significant expenditures are for public safety, which includes police and fire expenses of \$2,740,559 in 2008. These two services are partially supported by service charges, grants, and contributions, but the majority of the cost is funded by other general revenue sources of the General Fund, including property taxes.

General Fund Budgetary Highlights

Over the course of the year, the City of Walled Lake amended the budget to take into account events which occurred during the year. The City of Walled Lake's departments, overall, were able to hold the line on expenditures at year end, allowing the City to realize a final surplus of \$103,472 in expenditures. This surplus allowed the General Fund's fund balance to increase from \$1,044,012 to \$1,049,881 at June 30, 2008.

Capital Asset and Debt Administration

At the end of 2008, the City of Walled Lake had \$16,894,724 invested in a broad range of net capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Walled Lake has continued to invest significantly in roads within the City of Walled Lake, and at year end, we have begun to explore the feasibility of a long-term road improvement bond issue to make significant City-wide improvements in our road system.

Economic Factors and Next Year's Budgets and Rates

The impact of Proposal A continues to have a significant effect on the City of Walled Lake's property tax revenue and we must continue to watch our budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Walled Lake will grow less than the rate of inflation.

Sewer rates were increased for the 2007-2008 fiscal year by approximately 17 percent per unit (1,000 gallons) in order to bring our revenue and expenses more in line with one another. Since 2003 we have maintained steady increases in our per unit rate for sewer as the decrease in new development within the City has reduced the amount of tap in fee revenue we had for several years with the addition of East Bay Village. In the 2007-2008 fiscal year, we blended the water and sewer fund into one to provide greater financial stability to our utility system. Staff anticipates the increases will remain steady into the future, but we expect the increases to be reflective of the increases passed onto the City annually by Oakland County.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City of Walled Lake's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Walled Lake's finances and to show the City of Walled Lake's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact City Hall.

City of Walled Lake, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,545,232	\$ 2,027,726	\$ 3,572,958	\$ 582,723
Receivables:				
Customers	-	324,400	324,400	-
Due from other governmental units	542,141	85,074	627,215	11,299
Due from primary government	-	-	-	61,330
Other	84,012	-	84,012	11,891
Prepaid expenses and other assets	95,951	72,274	168,225	3,135
Restricted assets (Note 1)	-	1,178	1,178	-
Nondepreciable capital assets (Note 4)	1,572,172	-	1,572,172	-
Depreciable capital assets - Net (Note 4)	8,805,063	6,517,489	15,322,552	1,123,812
Total assets	12,644,571	9,028,141	21,672,712	1,794,190
Liabilities				
Accounts payable	129,631	334,778	464,409	26,654
Due to other governmental units	-	-	-	896
Due to component units	61,330	-	61,330	-
Accrued and other liabilities	203,319	5,009	208,328	-
Cash advances and deposits	176,445	-	176,445	-
Noncurrent liabilities (Note 6):				
Due within one year	554,726	7,618	562,344	63,625
Due in more than one year	2,909,981	68,558	2,978,539	156,000
Total liabilities	4,035,432	415,963	4,451,395	247,175
Net Assets				
Invested in capital assets - Net of related debt	7,788,549	6,517,489	14,306,038	1,123,812
Restricted:				
Major and local streets	512,393	-	512,393	-
Water and sewer projects	-	1,178	1,178	-
Unrestricted	308,197	2,093,511	2,401,708	423,203
Total net assets	\$ 8,609,139	\$ 8,612,178	\$ 17,221,317	\$ 1,547,015

City of Walled Lake, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,003,962	\$ 276,796	\$ 429,487	\$ -
Public safety	3,471,528	254,770	42,803	-
Public works	1,449,386	288,835	356,062	-
Recreation and culture	69,357	-	-	-
Interest on long-term debt	83,422	-	-	-
Total governmental activities	6,077,655	820,401	828,352	-
Business-type activity -Water and Sewer Fund	2,711,589	2,665,329	-	2,194
Total primary government	\$ 8,789,244	\$ 3,485,730	\$ 828,352	\$ 2,194
Component units:				
Downtown Development Authority	\$ 812,985	\$ 11,246	\$ -	\$ -
Walled Lake City Library	535,650	16,490	4,822	7,418
Total component units	\$ 1,348,635	\$ 27,736	\$ 4,822	\$ 7,418
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (297,679)	\$ -	\$ (297,679)	\$ -
(3,173,955)	-	(3,173,955)	-
(804,489)	-	(804,489)	-
(69,357)	-	(69,357)	-
(83,422)	-	(83,422)	-
(4,428,902)	-	(4,428,902)	-
-	(44,066)	(44,066)	-
(4,428,902)	(44,066)	(4,472,968)	-
-	-	-	(801,739)
-	-	-	(506,920)
-	-	-	(1,308,659)
3,776,240	-	3,776,240	1,595,519
718,618	-	718,618	-
133,593	72,608	206,201	47,042
70,896	16,578	87,474	3,107
71,533	(71,533)	-	-
4,770,880	17,653	4,788,533	1,645,668
341,978	(26,413)	315,565	337,009
8,267,161	8,638,591	16,905,752	1,210,006
\$ 8,609,139	\$ 8,612,178	\$ 17,221,317	\$ 1,547,015

City of Walled Lake, Michigan

Governmental Funds Balance Sheet June 30, 2008

	Special Revenue Funds				
	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,049,257	\$ 480,138	\$ 15,837	\$ -	\$ 1,545,232
Receivables:					
Due from other governmental units	299,017	40,623	15,612	77,824	433,076
Other	39,324	-	-	-	39,324
Due from component units	-	-	-	-	-
Prepaid expenses and other assets	94,377	751	823	-	95,951
Total assets	<u>\$ 1,481,975</u>	<u>\$ 521,512</u>	<u>\$ 32,272</u>	<u>\$ 77,824</u>	<u>\$ 2,113,583</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 102,785	\$ 1,210	\$ 1,076	\$ 24,560	\$ 129,631
Due to other governmental units	-	-	-	-	-
Due to component units	38,535	-	-	22,795	61,330
Accrued and other liabilities	114,329	37,882	1,223	-	153,434
Cash advances and deposits	176,445	-	-	-	176,445
Total liabilities	432,094	39,092	2,299	47,355	520,840
Fund Balances					
Reserved for prepaid expenses	94,377	-	-	-	94,377
Unreserved	955,504	482,420	29,973	30,469	1,498,366
Total fund balances	1,049,881	482,420	29,973	30,469	1,592,743
Total liabilities and fund balances	<u>\$ 1,481,975</u>	<u>\$ 521,512</u>	<u>\$ 32,272</u>	<u>\$ 77,824</u>	<u>\$ 2,113,583</u>
Fund Balance - Total Governmental Funds					\$ 1,592,743
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					10,377,235
Compensated absences are included as a liability in governmental activities					(876,021)
Long-term liabilities and related accrued interest are not due and payable in the current period and are not reported in the funds					(2,638,571)
Revenues are not received within 60 days of year end and are not available to pay for current year expenditures					109,065
Delinquent property taxes are included as revenue in governmental activities					44,688
Net assets of governmental activities					<u>\$ 8,609,139</u>

City of Walled Lake, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 3,699,395	\$ -	\$ 74,958	\$ 90,324	\$ 3,864,677
Licenses and permits	230,956	-	-	-	230,956
Federal sources	32,089	-	-	-	32,089
State sources	609,553	245,578	110,484	-	965,615
Charges for services	197,866	-	-	7,363	205,229
Fines and forfeitures	66,334	-	-	-	66,334
Interest earnings and rent	157,084	13,448	2,396	-	172,928
DDA reimbursements	659,701	-	-	-	659,701
Other	150,619	-	-	-	150,619
Total revenue	5,803,597	259,026	187,838	97,687	6,348,148
Expenditures					
Current:					
General government	1,104,848	-	-	77,827	1,182,675
Public safety	3,368,673	-	-	-	3,368,673
Public works	799,478	223,601	195,775	-	1,218,854
Recreation and cultural	49,763	-	-	-	49,763
Planning and development	-	-	-	150	150
Debt service	265,260	-	-	270,480	535,740
Total expenditures	5,588,022	223,601	195,775	348,457	6,355,855
Excess of Revenue Over (Under) Expenditures	215,575	35,425	(7,937)	(250,770)	(7,707)
Other Financing Sources (Uses)					
Transfers in	-	-	-	281,239	281,239
Transfers out	(209,706)	-	-	-	(209,706)
Total other financing sources (uses)	(209,706)	-	-	281,239	71,533
Net Change in Fund Balances	5,869	35,425	(7,937)	30,469	63,826
Fund Balances - Beginning of year	1,044,012	446,995	37,910	-	1,528,917
Fund Balances - End of year	<u>\$ 1,049,881</u>	<u>\$ 482,420</u>	<u>\$ 29,973</u>	<u>\$ 30,469</u>	<u>\$ 1,592,743</u>

City of Walled Lake, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	63,826
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	143,859
Depreciation expense	(442,606)

Revenue reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds	110,952
---	---------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	443,433
---	---------

Accrued interest payable is recorded when due in governmental funds	8,885
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Change in accumulated employee sick and vacation pay	13,629
--	--------

Change in Net Assets of Governmental Activities	\$	<u>341,978</u>
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City of Walled Lake, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

	Water and Sewer Fund
Assets	
Current assets:	
Cash and investments (Note 3)	\$ 2,027,726
Receivables:	
Customers	324,400
Due from other governmental units	85,074
Prepaid expenses and other assets	<u>72,274</u>
Total current assets	2,509,474
Noncurrent assets:	
Restricted assets (Note 1)	1,178
Capital assets - Net (Note 4)	<u>6,517,489</u>
Total noncurrent assets	<u>6,518,667</u>
Total assets	9,028,141
Liabilities	
Current liabilities:	
Accounts payable	334,778
Accrued and other liabilities	5,009
Current portion of compensated absences (Note 6)	<u>7,618</u>
Total current liabilities	347,405
Noncurrent liabilities - Compensated absences - Net of current portion (Note 6)	<u>68,558</u>
Total liabilities	<u>415,963</u>
Net Assets	
Investment in capital assets - Net of related debt	6,517,489
Restricted	1,178
Unrestricted	<u>2,093,511</u>
Total net assets	<u><u>\$ 8,612,178</u></u>

City of Walled Lake, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Water and Sewer Fund
Operating Revenue	
Customer usage billings	\$ 1,948,435
Permits	1,050
Other charges for services	149,077
Other income	<u>16,578</u>
Total operating revenue	2,115,140
Operating Expenses	
Sewage treatment costs	852,442
Cost of water purchased	655,689
Depreciation	352,333
Personnel services	545,612
General and administrative	<u>305,513</u>
Total operating expenses	2,711,589
Net Operating Loss	(596,449)
Nonoperating Revenue - Interest income	<u>73,682</u>
Loss - Before capital contributions	(522,767)
Capital Contributions - Capital charge/Tap-in fees	567,887
Transfers to Other Funds	<u>(71,533)</u>
Change in Net Assets	(26,413)
Net Assets - Beginning of year	<u>8,638,591</u>
Net Assets - End of year	<u><u>\$ 8,612,178</u></u>

City of Walled Lake, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,067,850
Payments to suppliers	(1,700,077)
Payments to employees	(546,472)
Net cash used in operating activities	(178,699)
Cash Flows from Noncapital Financing Activities - Operating transfers out	(71,533)
Cash Flows from Capital and Related Financing Activities	
Collection of customer assessments	567,887
Purchase of capital assets	(42,625)
Net cash provided by capital and related financing activities	525,262
Cash Flows from Investing Activities - Interest received on investments	73,682
Net Increase in Cash and Cash Equivalents	348,712
Cash and Cash Equivalents - Beginning of year	1,679,014
Cash and Cash Equivalents - End of year	<u><u>\$ 2,027,726</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (596,449)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	352,333
Changes in assets and liabilities:	
Receivables	(47,290)
Other assets	(3,711)
Accounts payable	117,278
Accrued and other liabilities	(860)
Net cash used in operating activities	<u><u>\$ (178,699)</u></u>

City of Walled Lake, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Retiree Health Care Fund	Agency
Assets		
Cash (Note 3)	\$ 7,525	\$ 135,065
Investments (Note 3):		
Bank investment pool	-	12,252
Equity mutual fund	258,901	-
Bond mutual fund	162,384	-
Prepaid expense and other assets	9,289	-
	<u>438,099</u>	<u>\$ 147,317</u>
Liabilities		
Accounts payable	54	\$ -
Cash bonds and deposits	<u>-</u>	<u>147,317</u>
	<u>54</u>	<u>\$ 147,317</u>
Net Assets - Held in trust for employee benefits	<u>\$ 438,045</u>	

City of Walled Lake, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	<u>Retiree Health Care Fund</u>
Additions	
Investment income:	
Interest and dividends	\$ 10,111
Net decrease in fair value of investments	<u>(27,930)</u>
Net investment loss	(17,819)
Contributions - Employer	<u>94,986</u>
Total additions	77,167
Deductions	
Retiree healthcare premium	86,672
Other	<u>15,162</u>
Total deductions	<u>101,834</u>
Change in Net Assets	(24,667)
Net Assets - Beginning of year	<u>462,712</u>
Net Assets - End of year	<u><u>\$ 438,045</u></u>

City of Walled Lake, Michigan

Component Units Statement of Net Assets June 30, 2008

	Downtown Development Authority	Walled Lake City Library	Total
Assets			
Cash and equivalents	\$ 451,727	\$ 130,996	\$ 582,723
Delinquent property tax receivable	11,861	-	11,861
Due from primary government	61,330	-	61,330
Due from other governmental units	3,299	8,000	11,299
Prepaid expenses and other assets	-	3,165	3,165
Depreciable capital assets - Net (Note 4)	606,622	517,190	1,123,812
Total assets	1,134,839	659,351	1,794,190
Liabilities			
Accounts payable	12,968	13,686	26,654
Due to other governmental units	896	-	896
Noncurrent liabilities (Note 6):			
Due within one year	63,625	-	63,625
Due in more than one year	156,000	-	156,000
Total liabilities	233,489	13,686	247,175
Net Assets			
Investment in capital assets	606,622	517,190	1,123,812
Unrestricted	294,728	128,475	423,203
Total net assets	\$ 901,350	\$ 645,665	\$ 1,547,015

City of Walled Lake, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 812,985	\$ 11,246	\$ -	\$ -
Walled Lake City Library - Recreation and culture	535,650	16,490	4,822	7,418
Total governmental activities	\$ 1,348,635	\$ 27,736	\$ 4,822	\$ 7,418
General revenues:				
Property taxes				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Component Units
Statement of Activities
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Walled Lake City Library	Total
\$ (801,739)	\$ -	\$ (801,739)
-	(506,920)	(506,920)
(801,739)	(506,920)	(1,308,659)
1,166,679	428,840	1,595,519
37,143	9,899	47,042
-	3,107	3,107
1,203,822	441,846	1,645,668
402,083	(65,074)	337,009
499,267	710,739	1,210,006
\$ 901,350	\$ 645,665	\$ 1,547,015

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Walled Lake, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Walled Lake, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The following component units are reported within the component units column in the accompanying financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The authority's governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council.
- b. The Walled Lake City Library is governed by a five-member board appointed by the mayor and approved by the City Council. The library is funded by two specially voted property tax levies.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is used to account for maintenance and construction of major public roads within the City.

Local Streets Fund - The Local Streets Fund is used to account for maintenance and construction of local public roads within the City.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and the sewage collection system.

Additionally, the City reports the following fiduciary fund types:

Retiree Health Care Fund - The Retiree Health Care Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as water and sewer distribution and collection. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with a final collection date of February 28 before they are added to the county tax rolls. The 2006 taxable valuation of the City totaled approximately \$258 million. The taxes levied and the resulting revenue by fund and component units were as follows:

	Millage Rate	Revenue
Operating millage	15.9526	\$ 3,501,399
Refuse millage	0.1644	36,084
Other - Tax collection and trailer park fees		238,757
Total governmental funds		<u>\$ 3,776,240</u>
Library Fund - Component unit	0.7975	\$ 175,116
Library Fund - Component unit	0.9846	253,724
Downtown Development Authority capture		<u>1,166,679</u>
Total component units		<u>\$ 1,595,519</u>

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Specific assets held at Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to Oakland County based on specific contracts with them.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	40 to 50 years
Water and sewer distribution systems	38 to 50 years
Buildings and building improvements	25 to 50 years
Vehicles	3 to 15 years
Furniture and equipment	3 to 30 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. In the fund financial statements, governmental fund types recognize debt issued as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Building permit revenue	\$ 66,632
Direct costs	(216,859)
Cumulative costs in excess of permit revenue:	
Beginning of year	<u>(135,601)</u>
End of year	<u>\$ (285,828)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Care Fund was organized under Public Act 149 of 1999. Under this act, the fund is authorized to invest in accordance with Public Act 314 and, accordingly, can invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City of Walled Lake's deposits and investment policies are in accordance with statutory authority.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,193,572 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to the component units, if any, is not determinable.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City holds \$158,238 of U.S. agency securities with a weighted maturity of 8.5 years. The Retiree Health Care Fund holds \$162,384 of pool investments.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<u>City</u>			
Bank investment pools	\$ 82,719	Aaa	Moody's
Bank investment pools	103,312	AAA-VI	Fitch
U.S. government agencies	158,238	Unrated	N/A
Retirees Health Care Fund - Pool investment	162,384	Unrated	N/A
<u>Component Units</u>			
Bank investment pools	27,103	Aaa	Moody's
Bank investment pools	14,894	AAA-VI	Fitch

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,572,172	\$ -	\$ -	\$ 1,572,172
Capital assets being depreciated:				
Roads and sidewalks	9,120,541	72,419	-	9,192,960
Buildings and improvements	1,154,303	5,551	-	1,159,854
Vehicles	1,345,955	27,987	19,969	1,353,973
Furniture and equipment	1,035,428	37,902	-	1,073,330
Subtotal	12,656,227	143,859	19,969	12,780,117
Less accumulated depreciation	3,552,417	442,606	19,969	3,975,054
Net capital assets being depreciated	9,103,810	(298,747)	-	8,805,063
Net capital assets	<u>\$ 10,675,982</u>	<u>\$ (298,747)</u>	<u>\$ -</u>	<u>\$ 10,377,235</u>
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 14,808,767	\$ -	\$ -	\$ 14,808,767
Furniture and equipment	1,048,852	42,625	13,985	1,077,492
Subtotal	15,857,619	42,625	13,985	15,886,259
Less accumulated depreciation	9,030,422	352,333	13,985	9,368,770
Net capital assets being depreciated	<u>\$ 6,827,197</u>	<u>\$ (309,708)</u>	<u>\$ -</u>	<u>\$ 6,517,489</u>

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

Capital asset activity for the City's component units for the year was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Component Units				
Capital assets being depreciated:				
Street lighting	\$ 476,334	\$ 190,125	\$ -	\$ 666,459
Furniture and equipment	91,633	264,618	-	356,251
Books, periodicals, and materials	898,013	23,044	-	921,057
Subtotal	1,465,980	477,787	-	1,943,767
Less accumulated depreciation	680,419	139,536	-	819,955
Net capital assets being depreciated	785,561	338,251	-	1,123,812
Net capital assets	<u>\$ 785,561</u>	<u>\$ 338,251</u>	<u>\$ -</u>	<u>\$ 1,123,812</u>

Depreciation expense was charged to programs of the primary government and component units as follows:

Governmental activities:	
General government	\$ 14,824
Public safety	168,312
Public works	239,876
Recreation and culture	19,594
Total governmental activities	<u>\$ 442,606</u>
Business-type activities:	
Water	\$ 82,952
Sewer	269,381
Total business-type activities	<u>\$ 352,333</u>
Component units:	
DDA	\$ 22,215
Library	117,321
Total component units	<u>\$ 139,536</u>

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 186,547
General Fund	Transportation Fund	23,109
Water and Sewer Fund	Capital Projects Fund	<u>71,533</u>
Total		<u>\$ 281,189</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations, debt service costs, and projects accounted for in the respective funds.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements, capital leases, and installment purchase agreements are also general obligations of the government.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Limited Tax General Obligation Development Bonds:						
Amount of issue: \$2,500,000	5.00%-	\$200,000-				
Maturing through 2011	6.00%	\$250,000	\$ 900,000	\$ (200,000)	\$ 700,000	\$ 250,000
Building Authority Complex Bond:						
Amount of issue: \$1,400,000	4.00%-	\$50,000-				
Maturing through 2022	6.00%	\$100,000	1,250,000	(50,000)	1,200,000	50,000
Total general obligation bonds			2,150,000	(250,000)	1,900,000	300,000
Installment purchase agreements:						
Bundo property:						
Amount of issue: \$995,000		\$125,000-				
Maturing through 2011	4.80%	\$145,000	535,000	(125,000)	410,000	125,000
Fire truck:						
Amount of issue: \$551,180		\$58,933-				
Maturing through 2011	5.09%	\$68,220	309,619	(55,933)	253,686	58,933
SMART loan:						
Amount of issue: \$37,500						
Maturing through 2009	0%	\$12,500	37,500	(12,500)	25,000	12,500
Total installment purchase agreements			882,119	(193,433)	688,686	196,433
Total general obligation bonds and installment purchase agreements			3,032,119	(443,433)	2,588,686	496,433
Other long-term obligations - Compensated absences			889,650	(13,629)	876,021	58,293
Total governmental activities			3,921,769	(457,062)	3,464,707	554,726
Business-type Activities - Other long-term obligations - Compensated absences			77,360	(1,184)	76,176	7,618
Component Unit - Walled Lake Consolidated School Agreement						
Amount of issue: \$769,000						
Maturing through 2012	-	\$63,625	283,250	(63,625)	219,625	63,625
Total governmental activities, business-type activities, and component unit			\$ 4,282,379	\$ (521,871)	\$ 3,760,508	\$ 625,969

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences, for the above bonds and note obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 496,433	\$ 124,393	\$ 620,826	\$ 63,625	\$ -	\$ 63,625
2010	514,119	94,257	608,376	52,000	-	52,000
2011	484,914	73,037	557,951	52,000	-	52,000
2012	143,220	49,697	192,917	52,000	-	52,000
2013	75,000	43,075	118,075	-	-	-
2014-2018	475,000	160,525	635,525	-	-	-
2019-2023	400,000	47,500	447,500	-	-	-
Total	<u>\$ 2,588,686</u>	<u>\$ 592,484</u>	<u>\$ 3,181,170</u>	<u>\$ 219,625</u>	<u>\$ -</u>	<u>\$ 219,625</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plan (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$523,497 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using an entry age normal funding method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension cost (APC)	\$ 408,984	\$ 454,177	\$ 523,497
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plan (Continued)

	Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 2,996,775	\$ 3,364,957	\$ 3,829,627
Actuarial accrued liability (entry age) (AAL)	\$ 9,593,477	\$ 10,095,789	\$ 10,729,701
Unfunded AAL (UAAL)	\$ 6,596,702	\$ 6,730,832	\$ 6,900,074
Funded ratio	31%	33%	36%
Covered payroll	\$ 2,260,917	\$ 2,344,612	\$ 2,396,023
UAAL as a percentage of covered payroll	292%	287%	288%

Note 9 - Joint Venture

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. During the current year, the City contributed approximately \$5,700 for its operations. Complete financial statements for the Authority can be obtained from the administrative offices at 20000 West 8 Mile Road, Southfield, Michigan 48075.

Note 10 - Retiree Health Care Fund

Effective January 1, 2000, the City entered into an agreement with its employees to provide retiree healthcare benefits. Under terms of the agreement, the City is required to set aside \$75 per pay for each employee. Of this amount, \$70 is set aside to pay premiums of up to \$800 per month for retiree health care. The other \$5 is set aside to reimburse employees, who upon retirement or separation from the City do not wish to participate in the retiree healthcare program. The \$75 contributed to the plan is set aside by the City in a fund established in compliance with PA 149 of 1999, called the Retiree Health Care Fund.

Note 10 - Retiree Health Care Fund (Continued)

In order to offset these new costs to the City, the employees contribute \$25 per pay to the City's General Fund for current healthcare costs. To be eligible for retirement healthcare benefits, an employee must have a minimum of 15 years' seniority, or six years' seniority if he or she was a member of the clerical unit prior to January 1, 2000. For most employees, benefits do not commence until the employee starts to draw from the City's MERS pension plan. If an employee elects not to receive a healthcare benefit upon retirement, the City will provide a severance benefit equal to \$25 multiplied by the number of pay periods the employee worked subsequent to January 1, 2000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes:				
Real and personal property tax	\$ 3,057,583	\$ 3,100,000	\$ 3,201,634	\$ 101,634
Refuse tax	328,031	324,670	324,670	-
Walled Lake Villa and mobile home taxes	10,750	10,786	15,786	5,000
Delinquent taxes	8,000	3,929	65,455	61,526
Collection fees	65,613	74,394	74,394	-
Interest, penalties, and other	20,000	17,456	17,456	-
Total property taxes	3,489,977	3,531,235	3,699,395	168,160
Licenses and permits:				
Building permits	76,750	63,000	66,632	3,632
Cablevision fee	80,000	112,539	112,539	-
Planning and zoning fees	31,500	24,875	23,885	(990)
Other licenses and permits	27,100	27,050	27,900	850
Total licenses and permits	215,350	227,464	230,956	3,492
Federal sources	23,194	32,089	32,089	-
State sources:				
Revenue sharing	610,698	610,698	602,082	(8,616)
Police training	3,400	1,698	3,266	1,568
Liquor license fees	1,000	4,205	4,205	-
Total state sources	615,098	616,601	609,553	(7,048)
Charges for services:				
Radio service	41,620	41,620	41,620	-
Weed cutting	2,000	4,176	4,176	-
Cemetery lot sales	2,500	7,220	7,220	-
School liaison	20,000	30,000	33,850	3,850
Administrative charges to other funds	110,500	111,000	111,000	-
Total charges for services	176,620	194,016	197,866	3,850
Fines and forfeitures - District Court	90,500	62,250	66,334	4,084
Interest and rent:				
Interest and earnings	28,500	129,146	117,749	(11,397)
Equipment and building rental	22,250	30,286	39,335	9,049
Total interest and rent	50,750	159,432	157,084	(2,348)

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue (Continued)				
Other:				
Sale of fixed assets	\$ 2,500	\$ 5,142	\$ 5,454	\$ 312
DARE contributions	30,000	30,000	30,000	-
Reimbursements	24,000	25,100	26,075	975
DDA service reimbursements	410,201	410,201	410,201	-
Refunds and rebates	14,600	1,992	2,066	74
DDA reimbursement for Maple Road debt service	249,500	249,500	249,500	-
Other	97,471	82,152	87,024	4,872
Total other	828,272	804,087	810,320	6,233
Total revenue	5,489,761	5,627,174	5,803,597	176,423
Expenditures				
General government:				
Mayor and City Council	25,232	18,966	15,514	3,452
City manager	59,962	60,962	90,113	(29,151)
Assessor	56,461	56,461	49,096	7,365
Board of Review	1,300	1,150	1,990	(840)
Attorney	36,000	36,000	33,000	3,000
Prosecution and litigation	128,000	128,000	127,654	346
Clerk	304,663	304,663	283,280	21,383
Treasurer	288,941	290,112	327,743	(37,631)
General government	274,370	274,370	176,458	97,912
Total general government	1,174,929	1,170,684	1,104,848	65,836
Public safety:				
Police	1,762,753	1,778,759	1,835,246	(56,487)
Fire	904,811	945,810	905,313	40,497
Dispatch	300,572	300,572	299,229	1,343
Zoning Board of Appeals	2,500	2,500	250	2,250
Building inspection	198,818	198,818	216,859	(18,041)
Planning Commission	125,633	125,633	111,776	13,857
Total public safety	3,295,087	3,352,092	3,368,673	(16,581)
Public works:				
Department of Public Works	515,001	525,689	475,554	50,135
Sanitation	328,031	328,031	323,924	4,107
Debt service	-	249,500	265,260	(15,760)
Total public works	843,032	1,103,220	1,064,738	38,482

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Cultural and recreation:				
Parks and recreation	\$ 51,998	\$ 63,498	\$ 47,546	\$ 15,952
Beautification Commission	<u>1,500</u>	<u>2,000</u>	<u>2,217</u>	<u>(217)</u>
Total cultural and recreation	<u>53,498</u>	<u>65,498</u>	<u>49,763</u>	<u>15,735</u>
Total expenditures	5,366,546	5,691,494	5,588,022	103,472
Other Financing Uses - Transfer out	<u>186,446</u>	<u>186,446</u>	<u>209,706</u>	<u>(23,260)</u>
Total expenditures and other financing uses	<u>5,552,992</u>	<u>5,877,940</u>	<u>5,797,728</u>	<u>80,212</u>
Excess of Revenue Over (Under)				
Expenditures and Other Financing Uses	(63,231)	(250,766)	5,869	<u>\$ 256,635</u>
Fund Balance - Beginning of year	<u>1,044,012</u>	<u>1,044,012</u>	<u>1,044,012</u>	
Fund Balance - End of year	<u>\$ 980,781</u>	<u>\$ 793,246</u>	<u>\$ 1,049,881</u>	

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 258,482	\$ 258,482	\$ 245,578	\$ (12,904)
Interest earnings	15,000	15,000	13,448	(1,552)
Other	<u>618</u>	<u>618</u>	<u>-</u>	<u>(618)</u>
Total revenue	274,100	274,100	259,026	(15,074)
Expenditures				
Street construction	72,000	72,000	8,179	63,821
Street maintenance	114,648	114,648	124,122	(9,474)
Traffic signs	37,870	37,870	32,836	5,034
Administrative	<u>73,539</u>	<u>73,539</u>	<u>58,464</u>	<u>15,075</u>
Total expenditures	<u>298,057</u>	<u>298,057</u>	<u>223,601</u>	<u>74,456</u>
Excess of Revenue Over Expenditures	(23,957)	(23,957)	35,425	<u>\$ 59,382</u>
Fund Balance - Beginning of year	<u>446,995</u>	<u>446,995</u>	<u>446,995</u>	
Fund Balance - End of year	<u>\$ 423,038</u>	<u>\$ 423,038</u>	<u>\$ 482,420</u>	

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 108,080	\$ 108,080	\$ 74,958	\$ (33,122)
State-shared revenue	115,586	115,586	110,484	(5,102)
Interest earnings	1,000	1,000	2,396	1,396
Other	670	670	-	(670)
Total revenue	225,336	225,336	187,838	(37,498)
Expenditures				
Street construction	56,000	56,000	50,000	6,000
Street maintenance	96,905	96,905	91,435	5,470
Traffic signs	4,457	4,457	4,587	(130)
Administrative	67,974	67,974	49,753	18,221
Total expenditures	225,336	225,336	195,775	29,561
Excess of Expenditures Over Revenue	-	-	(7,937)	<u><u>\$ (7,937)</u></u>
Fund Balance - Beginning of year	37,910	37,910	37,910	
Fund Balance - End of year	<u><u>\$ 37,910</u></u>	<u><u>\$ 37,910</u></u>	<u><u>\$ 29,973</u></u>	

City of Walled Lake, Michigan

Note to Required Supplemental Information Year Ended June 30, 2008

Note - Budgetary Information

The City adopts a formal budget for the General Fund, the Capital Project Fund, and all Special Revenue Funds. By the end of February, all department heads submit spending requests to the City manager so that a budget may be prepared. At the beginning of April, the proposed budget is submitted to the City Council for review. Public hearings are held and a final budget is adopted by the City Council no later than the third Monday in May. The City Council must approve any budget amendments. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated.

The budget document presents information by fund, activity, and line items. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. During the current year, the budget was amended after year end.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Walled Lake incurred expenditures that were in excess of the amounts budgeted in the following funds:

		Amended Budget	Actual	Variance
General Fund:				
General government:				
City manager	(I) \$	60,962	\$ 90,113	\$ (29,151)
Board of Review	(I)	1,150	1,990	(840)
Treasurer	(I)	290,112	327,743	(37,631)
Public safety:				
Police	(I)	1,778,759	1,835,246	(56,487)
Building Inspection	(I)	198,818	216,859	(18,041)
Public works - Debt service	(I)	249,500	265,260	(15,760)
Cultural and recreation - Beautification				
Commission	(I)	2,000	2,217	(217)
Other financing uses - Transfer out	(I)	186,446	209,706	(23,260)
Major Streets Fund - Street maintenance	(I)	114,648	124,122	(9,474)
Local Streets Fund - Traffic signs	(I)	4,457	4,587	(130)

(I) The unfavorable expenditure variances were due to miscellaneous expenditures that became necessary during the year.

Other Supplemental Information

City of Walled Lake, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Fund - Transportation Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
Assets			
Due from other governmental units	<u>\$ 77,824</u>	<u>\$ -</u>	<u>\$ 77,824</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 24,560	\$ -	\$ 24,560
Due to component units	<u>22,795</u>	<u>-</u>	<u>22,795</u>
Total liabilities	47,355	-	47,355
Fund Balances - Unreserved	<u>30,469</u>	<u>-</u>	<u>30,469</u>
Total liabilities and fund balances	<u>\$ 77,824</u>	<u>\$ -</u>	<u>\$ 77,824</u>

City of Walled Lake, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Net Assets Nonmajor Governmental Fund Year Ended June 30, 2008

	Special Revenue Fund - Transportation Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
Revenue			
Property taxes	\$ 90,324	\$ -	\$ 90,324
Charges for services	7,363	-	7,363
Total revenue	97,687	-	97,687
Expenditures			
General government	77,827	-	77,827
Planning and development	-	150	150
Debt service	12,500	257,980	270,480
Total expenditures	90,327	258,130	348,457
Excess of Revenue Over (Under) Expenditures	7,360	(258,130)	(250,770)
Other Financing Sources -			
Transfers in	23,109	258,130	281,239
Net Change in Fund Balances	30,469	-	30,469
Fund Balances - Beginning of year	-	-	-
Fund Balances - End of year	<u>\$ 30,469</u>	<u>\$ -</u>	<u>\$ 30,469</u>

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake Downtown Development Authority Year Ended June 30, 2008

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property tax capture	\$ 1,165,400	\$ 1,279	\$ 1,166,679
Interest earnings	37,143	-	37,143
Other income	11,246	-	11,246
	<u>1,213,789</u>	<u>1,279</u>	<u>1,215,068</u>
Expenditures			
Depreciation	-	22,216	22,216
Personnel costs	426,476	-	426,476
City agreement	-	-	-
Office and administrative expenses	10,736	-	10,736
Maple Road debt service	249,500	-	249,500
School facility reimbursement	63,625	(63,625)	-
Street construction	203,549	(190,125)	13,424
Planning and development	59,946	-	59,946
Prior year refund to County	-	-	-
Refund for tax tribunal settlements	-	-	-
Refund to taxing authorities	-	-	-
Miscellaneous	30,600	-	30,600
	<u>1,044,519</u>	<u>(231,534)</u>	<u>812,985</u>
Excess of Revenue Over Expenditures	169,270	232,813	402,083
Net Assets - Beginning of year	<u>333,192</u>	<u>166,075</u>	<u>499,267</u>
Net Assets - End of year	<u>\$ 502,462</u>	<u>\$ 398,888</u>	<u>\$ 901,350</u>

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake City Library Year Ended June 30, 2008

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property taxes	\$ 428,840	\$ -	\$ 428,840
State-shared revenue	4,822	-	4,822
Interest earnings	9,899	-	9,899
Video rentals	2,968	-	2,968
Library fines and fees	13,522	-	13,522
Other income	10,525	-	10,525
Total revenue	470,576	-	470,576
Expenditures			
Personnel costs	257,724	(22,305)	235,419
Office and administrative expenses	105,536	-	105,536
Depreciation	-	117,321	117,321
Capital outlay	342,732	(265,358)	77,374
Total expenditures	705,992	(170,342)	535,650
Excess of Revenues Over Expenditures	(235,416)	170,342	(65,074)
Net Assets - Beginning of year	363,891	346,848	710,739
Net Assets - End of year	<u>\$ 128,475</u>	<u>\$ 517,190</u>	<u>\$ 645,665</u>

City of Walled Lake

Report to the City Council

June 30, 2008

August 29, 2008

To the Mayor and Members of City Council
City of Walled Lake

We have recently completed our audit of the basic financial statements of City of Walled Lake (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, and informational comments which impact the City:

	<u>Page</u>
Report on Internal Control	1-3
Results of the Audit	4-6
Informational - Legislative Matters	7-12

We are grateful for the opportunity to be of service to the City of Walled Lake. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan



William E. Brickey

Report on Internal Control

To the Mayor and Members of City Council
City of Walled Lake

Dear Mayor and Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Walled Lake as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

To the Mayor and Members of City Council
City of Walled Lake

- I. Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. It is our understanding that the city treasurer has the ability to collect cash, electronically transfer funds out of the bank, prepare bank reconciliations, change payroll information, and create journal entries. There has been much study recently on methods that smaller organizations can use to provide reasonable internal controls on a cost-effective basis. We believe that the principles of the COSO Integrated Framework (www.coso.org) can be effectively utilized to establish internal controls in an organization the size of the City of Walled Lake without undue costs. Specifically, we would recommend that the City consider some of the following procedures:
 - Bank statements could be received by someone other than the city treasurer, opened, inspected, and then provided to the treasurer to perform the reconciliation function; the reconciliation could subsequently be initiated by a second individual after it is complete.
 - Bank wire transfers could be written and approved by a second individual.
 - Payroll registers could be reviewed by someone independent of the payroll process, and one or two individuals' pay rates could be compared to the pay listing approved by the City Council.
 - A formal monthly or quarterly closing procedure could be utilized that would include written reconciliations of all bank accounts (all are currently being reconciled other than the retiree healthcare investment account and library account), reconciling the tax account to undistributed taxes, water and sewer receivables to the billing system, as well as any other key accounts.
 - Monthly revenue and expense reports (compared to prior year and budget) could be provided to the City Council for its review.
2. The Trust and Agency Fund activity related to tax collections has not been reconciled. At year end, there is a debit balance of approximately \$48,000 in the tax collection account, which would imply that tax dollars may have been overdistributed. The City has not identified the reason for the debit balance in this account.
3. Auditor identified journal entries were posted to the City's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles. We are happy to assist in adjusting the City's general ledger, but are also required to communicate our part in completing the City's accounting records to you. A number of these journal entries was related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements. In addition, certain revenue and accounts receivable activities of the Transportation Fund were not recorded by the City (the City did not submit reimbursement requests related to the SMART program in a timely manner during the year).

To the Mayor and Members of City Council
City of Walled Lake

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

- During our review of the City's credit card activity, we noted instances when credit card charges were paid without supporting receipts or other documentation. Under the terms of the City's policy, all items should be supported by a receipt or an equivalent form of documentation.
- The department of public works compares volume data from the Detroit water bills to the water units sold as measured by the billing registers. This comparison is one of the important measures used to determine whether there could be any number of issues in the system (potential water leaks, inaccurate meters, etc.). We noted in our audit that the volume of water sold as measured by the billing registers appears to have some inaccuracies when aggregating multi-meter customers. We recommend that the City attempt to correct any errors in this measurement. Software enhancements may also be a potential solution. These reconciliations will assist the DPW director in monitoring the usage billed in relation to the amount purchased as an indicator of potential water loss due to line breaks and other system leaks.

This communication is intended solely for the information and use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 29, 2008

Results of the Audit

To the Mayor and Members of City Council
City of Walled Lake

We have audited the financial statements of the City of Walled Lake for the year ended June 30, 2008 and have issued our report thereon dated August 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 14, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Walled Lake. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 2, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Walled Lake are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2008.

To the Mayor and Members of City Council
City of Walled Lake

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimate of accounts receivable related to unbilled water and sewer fees.

Management's estimate of the unbilled water and sewer fees is based on historical information. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 4 - Capital Assets, Note 6 - Long-term Debt, and Note 8 - Defined Benefit Pension Plan.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements were detected as a result of audit procedures and were corrected by management. Entries related to property taxes, intergovernmental activities, accounts payable, accounts receivable, recording of the Library's bank account, and items required for the full-accrual presentation of the government-wide statements were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Mayor and Members of City Council
City of Wall Lake

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of the members of the City Council and management of the City of Wall Lake and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 29, 2008

Informational and Legislative Items

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include the following:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills was introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).
- Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements do not constitute a taxable addition

State-shared Revenue

The governor released her proposal of the State’s fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, 2008 and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	<u>404.920</u>	<u>392.050</u>	<u>406.933</u>	<u>3.80%</u>
Total to cities, villages, and townships	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	<u>-</u>	<u>-</u>	<u>2.394</u>	<u>n/a</u>
Total revenue sharing	<u>\$ 1,070.900</u>	<u>\$ 1,074.830</u>	<u>\$ 1,085.319</u>	<u>0.98%</u>

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state shared-revenue for the City since 2003, broken out by statutory and constitutional portions:

State Fiscal Year	Statutory	Constitutional	Total
2003	\$ 260,047	\$ 447,509	\$ 707,556
2004	193,269	442,649	635,918
2005	175,773	453,213	628,986
2006	161,060	460,927	621,987
2007	152,115	451,349	603,464
2008	140,726	462,738	603,464
2009 est.	151,412	458,137	609,549

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$151,000 at risk in its General Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets can not be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Other Legislative Items

- As part of Michigan's new Planning Enabling Act, many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.
- At the federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million per year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end June 30, 2008 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.